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June 5, 2003

**VIA HAND DELIVERY**

Ms. Sara Kyle, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243

***Re: Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges So As to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful In Furnishing Water Service to Its Customers, Docket No. 03-00118.***

Dear Chairman Kyle:

Enclosed please find thirteen copies of the following:

- (a) letter dated June 5, 2003, from Ms. Sheila Valentine, Senior Financial Analyst of American Waterworks Service Co., Inc., to me, explaining a correction in her testimony filed and a correction in testimony of Michael Miller previously filed;
- (b) Ms. Valentine's corrected testimony appears on page 8 of her testimony as stated in her letter of June 5, 2003, to me; we ask that the enclosed page 8 be substituted for page 8 of her previously filed testimony.
- (c) As to Mr. Miller's testimony, we are enclosing a corrected copy of page 24 and page 28 of his testimony and ask that these pages be substituted in his testimony. Ms. Valentine explains these corrections also in her letter to me of June 5, 2003.

The errors in the testimony were discovered when these parties were responding to the third data requests of Mr. Mike Gaines, Chief of the Energy & Water Division of the TRA, dated May 28<sup>th</sup>. The responses were made on June 4<sup>th</sup> and were filed directly with the TRA. Copies were given to counsel for all parties.

Chairman Sara Kyle

June 5, 2003

Page 2

Should you have any questions, please do not hesitate to call me. With kindest regards, I remain

Very truly yours,

A handwritten signature in black ink, appearing to read 'T.G. Pappas', with a long horizontal flourish extending to the right.

T.G. Pappas

TGP/sdt

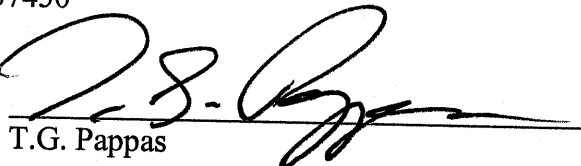
Enclosure

cc: Certificate of Service List  
Mr. William F. L'Ecuyer (via facsimile)  
Mr. Michael Miller (via facsimile)  
Mr. Roy Ferrell (via facsimile)  
R. Dale Grimes, Esq.  
George Masterson, Esq.

### CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of corrected testimony of Sheila Valentine and Michael Miller previously filed on behalf of Tennessee American Water have been served, via the method(s) indicated, on this the 5<sup>th</sup> day of June, 2003:

<input type="checkbox"/> Hand	Michael A. McMahan, Esq.
<input type="checkbox"/> Mail	Phillip A. Noblett, Esq.
<input type="checkbox"/> Facsimile	Lawrence W. Kelly, Esq.
<input checked="" type="checkbox"/> Overnight, UPS	Nelson, McMahan & Noblett 801 Broad Street, Suite 400 Chattanooga, TN 37402
<input checked="" type="checkbox"/> Hand	Vance L. Broemel, Esq.
<input type="checkbox"/> Mail	Shilina B. Chatterjee, Esq.
<input type="checkbox"/> Facsimile	Assistant Attorney General
<input type="checkbox"/> Overnight, UPS	Office of the Attorney General Consumer Advocate and Protection Division 425 5 <sup>th</sup> Avenue North, 2 <sup>nd</sup> Floor Nashville, TN 37243-0491
<input checked="" type="checkbox"/> Hand	Henry M. Walker, Esq.
<input type="checkbox"/> Mail	Boult, Cummings, Conners & Berry, PLC
<input type="checkbox"/> Facsimile	414 Union Street, Suite 1600
<input type="checkbox"/> Overnight, UPS	Nashville, TN 37219
<input type="checkbox"/> Hand	David C. Higney, Esq.
<input type="checkbox"/> Mail	Grant, Konvalinka & Harrison, P.C.
<input type="checkbox"/> Facsimile	633 Chestnut Street, 9 <sup>th</sup> Floor
<input checked="" type="checkbox"/> Overnight, UPS	Chattanooga, TN 37450

  
T.G. Pappas



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American Water Works Service Company, Inc.

2003 JUN -5 PM 3:52

Southeast Region (Georgia, Kentucky, Maryland, Tennessee, Virginia, West Virginia)  
P.O. Box 1906 • Charleston, West Virginia 25327-1906

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June 5, 2003

Mr. T. G. Pappas, Esq.  
Bass, Berry & Sims  
315 Deaderick Street  
Suite 2700  
AmSouth Center  
Nashville, TN 37228-0002

Re: Petition of Tennessee-American Water Company to Change and Increase  
Certain Rates and Charges so as to Permit it to Earn a Fair and Adequate Rate of  
Return on its Property Used and Useful in Furnishing Water Service to its  
Customers  
(TRA Docket No. 03-00118)

Dear Mr. Pappas:

Enclosed are corrected pages of testimony for myself and Mr. Mike Miller. Page 8 is from my testimony with a correction made to the amortization amounts for the Shared Services Center and the Customer Call Center on lines 19 and 20. Originally the testimony read "The Company is proposing a ten year amortization period resulting in an annual amortization amount of \$64,600 for the Shared Services Center and \$48,200 for the Customer Call Center". It will now read "The Company is proposing a ten year amortization period resulting in an annual amortization amount of \$35,948 for the Shared Services Center and \$87,262 for the Customer Call Center.

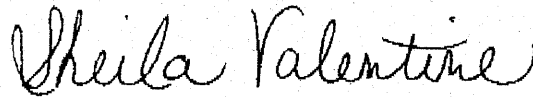
Pages 24 and 28 are from Mr. Miller's testimony and a correction was made to reference the reduction in expense amount on line 5 of page 24. This originally read "The schedule indicated an annual savings of \$744,032 from the elimination of 11 employees' salaries and payroll related overhead," and it will now read "The schedule indicates a reduction in expense of \$748,642 from the elimination of 11 employees' salaries and payroll related overhead."

A correction was also made on page 28, line 5 regarding the amount of the reduction in expenses and also to the annual savings amount on line 11. Line 5 originally read "This exhibit indicates a reduction in expenses of \$573,842" and should read "This exhibit indicates a reduction in expenses of \$636,303." The correction in the amount on line 11 originally read "The calculation produces an annual savings of \$88,049" and should be "The calculation produces an annual savings of \$150,470." In all cases, the amounts referenced in the testimony were inconsistent with Exhibit MAM-4.

We respectfully ask that you please file these corrections in testimony with the Tennessee Regulatory Authority at your earliest convenience.

Should you have any questions regarding this information, please do not hesitate to call.

Sincerely,

A handwritten signature in cursive script that reads "Sheila Valentine". The signature is written in dark ink and is positioned above the printed name and title.

Sheila Valentine  
Senior Financial Analyst

Enclosures

cc: Roy Ferrell

1 The second adjustment applies to the ESOP and 401K expense.  
2 The net result of this adjustment is (\$1,548) which was based upon  
3 the reduction in overall associates due to the relocation of the call  
4 center.

5  
6 The third adjustment eliminated the cost of temporary employees  
7 and normalized the test year. This resulted in a decrease of  
8 \$51,057. Adjustments were also made to transfer lobbying  
9 expenses and club dues to below the line per the Compliance  
10 Audit dated September 18, 1996.  
11

12 The fourth adjustment includes security costs calculated at  
13 \$12,960 per month and the related amortization of the current  
14 deferred security costs. The Company is proposing a three year  
15 amortization of the deferred security costs. The fifth adjustment  
16 is the amortization of the transition costs for the Shared Services  
17 Center and the Customer Call Center. The Company is proposing  
18 a ten year amortization period resulting in an annual  
19 amortization amount of \$35,948 for the Shared Services Center  
20 and \$87,262 for the Customer Call Center.  
21

22 The sixth adjustment includes transferring \$63,640 in lab costs  
23 and research and development costs to Management Fees.  
24

25 The proposed miscellaneous expense for the attrition year is  
26 \$1,820,924 which includes adjustments totaling \$282,669.  
27

#### 28 MAINTENANCE EXPENSE

29 Maintenance expense for the test year was \$639,533. One  
30 adjustment was made to annualize street opening costs to arrive  
31 at a normalized test year amount of \$678,112. The company is  
32 proposing to increase this total by \$22,208 to reflect the inflation  
33 factor to arrive at an attrition year balance of \$700,320.  
34

35 This expense category includes costs associated with maintaining  
36 the property of the Company. This would include repair parts,  
37 tools, maintenance supplies, contracted services, paving,  
38 maintenance agreements, and other miscellaneous maintenance  
39 expenses.  
40

#### 41 AFUDC

1 37. Q. WOULD YOU PLEASE DESCRIBE THE IMPACT OF THE  
2 MOVE TO THE NATIONAL CALL CENTER?

3 A. Yes. Attached to this testimony is Exhibit MAM-4 which provides  
4 the detail of the cost to make the transition and its impact. The  
5 schedule indicates a reduction in expense of \$748,642 from the  
6 elimination of 11 employees' salaries and payroll related  
7 overhead, elimination of temporary positions, and reduction in  
8 various miscellaneous expenses. The Company's forecasted cost  
9 for the service provided by the Call Center is \$616,858. This cost  
10 is allocated to the Company based on its number of customers to  
11 the total customer base served by the Center. These business  
12 case estimates have been very close to the actual cost for the  
13 companies already served by the Center.  
14

15 38. Q. YOU ALSO INCLUDE TRANSITION COSTS FOR THE MOVE  
16 TO THE CALL CENTER. PLEASE DESCRIBE WHAT  
17 MAKES UP THESE COSTS AND THE RATE TREATMENT  
18 THE COMPANY IS REQUESTING IN THIS CASE.

19 A. As with any project of this type, there are costs required to make  
20 the transition possible and to make it go smoothly. The  
21 Company's allocated portion of these one-time costs is \$872,617.  
22 Those costs are made up of severance costs, moving costs for those  
23 associates electing to relocate to Alton, consulting costs to set up  
24 the processes and training, and in-house costs charged for setup

1 the annual impact of the transition to the Shared Service Center.

2  
3 44. Q. WOULD YOU PLEASE DESCRIBE THE INFORMATION  
4 CONTAINED IN EXHIBIT MAM-4?

5 A. This exhibit indicates a reduction in expenses of \$636,303  
6 comprised of the elimination of 4 employees, and the Marlton, NJ,  
7 Regional Service Company charges for accounting. The exhibit  
8 also indicates the forecasted expenses from the Shared Services  
9 Center of \$338,526, and the accounting cost from the Southeast  
10 Region of \$111,349. This calculation produces an annual savings  
11 of \$150,470.

12  
13 45. Q. YOU ALSO INCLUDE TRANSITION COSTS FOR THE MOVE  
14 TO THE SHARED SERVICES CENTER. PLEASE DESCRIBE  
15 WHAT MAKES UP THESE COSTS AND THE RATE  
16 TREATMENT THE COMPANY IS REQUESTING IN THIS  
17 CASE?

18 A. There are costs required to make the transition go smoothly. The  
19 Company's allocated portion of these one-time costs is \$359,480.  
20 These costs are made up of severance costs, moving costs for those  
21 associates electing to move to the Shared Services Center,  
22 consulting costs to set-up the processes and training, and in-house  
23 costs charged to set-up and training.